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SUBJECT: SOUTH AFRICA: NEW BANK ACCOUNT FOR LOW-INCOME CLIENTS

1. Summary. The big four South African banks launched a new low-cost bank account named 'Mzansi' on October 25. This bank account fulfills a part of the South African government's goal to increase low-income individuals' access to financial services, as expressed by the Black Economic Empowerment (BEE) financial services charter. Most stakeholders hail the account as a positive initial step, but many have criticized the account's functionality. At the same time, banks are concerned about middle-income clients switching to the low-cost account. The future of retail banking competition is unclear, as traditionally high bank charges could face pricing pressure in light of this new account and emerging smaller banks catering to low-income customers. End Summary.

Account Details

2. On October 25, South African banks launched the 'Mzansi' (a Zulu word meaning south) account, a new South African low-cost bank initiative. The Black Economic Empowerment (BEE) financial services charter drove this new product launch as part of the South African government's (SAG) objective to increase access to banking for the over 13 million 'unbanked' South Africans. The four largest South African banks--Standard Bank, First National Bank, ABSA, and Nedcor--participated in the launch as well as Postbank, the savings division of the South African Post Office. Nedcor's subsidiaries Nedbank, Old Mutual Bank, Peoples Bank, and Meeg Bank all participated in the launch.

3. The Mzansi account offers bank fees that are 30% to 60% less than a typical bank account. A valid ID document is all that is required to open an account. Each bank is pricing its account services differently. Account services that incur fees include ATM withdrawals, cash deposits, and check deposits. The Mzansi account characteristics that remain consistent across banks include: (1) free use of another bank's ATM; (2) no management fees; (3) at least one free monthly cash deposit; and (4) a debit card to use at retailers.

Some Criticism But Plenty of Support

4. Various groups supported the Mzansi launch, but argued that the banks are not introducing the account in a practical form. The Association of Black Securities and Investment Professionals (Absip), the South African Communist Party (SACP), and the think tank FinMark Trust stated publicly that the account should include electronic payment options to make a real difference. This option would allow account holders to easily make payments for items such as insurance or housing bonds. The banks recognize this need and predict that the functionality of the account will grow with time. The financial services charter council members hailed the account launch as a sign of progress and a unified front of its members, including Absip, the SACP, the Congress of South African Trade Unions (COSATU), banks, and government. The SACP is pleased with this initial step, as it highlighted the 'unbanked' population problem four years ago. The financial services charter council will monitor progress of the Mzansi account going forward.

Effects on Banking Market

5. Banks are concerned that the Mzansi account will cannibalize profits. Their fear is that middle-income individuals will open Mzansi accounts and close their more expensive accounts. To prevent switching, the account restricts activity and transaction amounts. Nedcor set a R15,000 (\$2,400) maximum balance and imposed a fee on excess transactions, taking a proactive approach to this potential problem.

6. The Mzansi account introduces a measure of uncertainty into retail banking in South Africa. Will the Mzansi account put pressure on banks to lower fees on other accounts? One micro finance regulator described the Mzansi account as a preemptive move by the large banks to keep the smaller banks from expanding their low-income market share. Capitec and Teba Bank, both supported by a USAID grant or credit guarantee, are two of these smaller banks. Capitec, a niche

bank and micro lender, decided not to participate in the Mzansi account, but already provides services to low-income South Africans. Capitec offers low-cost accounts that provide more banking services to clients, including electronic payment options and higher interest rates. Teba Bank, traditionally serving mineworkers, is expanding its product range to reach low-income clients outside mining communities. The Mzansi account will not be a profitable venture in the short-term for the large banks, but it should bring the large banks new low-income customers that could be a future source of growth in retail banking. The large banks are hoping to learn from the South African market so that they may apply this model elsewhere in Africa.

Comment

17. The challenge for the banking sector is to find the balance between making the Mzansi account practical enough for low-income clients, but restrictive enough to keep middle or high-income customers from switching accounts. Adding to this challenge, is the race to attract the low-income market.

In three months, the four big banks and Postbank (South African post office) will launch their individual Mzansi account marketing campaigns. As part of this effort, banks will be setting up more branches and ATMs. One of the financial services charter goals for 2008 is to locate an ATM within 10 kilometers and full banking services within 15 kilometers of 80% of the homes in South Africa. The Mzansi account, combined with the ATM and branch expansion, promises to go a long way in meeting financial services charter goals.

End Comment.

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